

Asia's rich and poor

## For whosoever hath, to him shall be given, and he shall have more

HONG KONG

Income inequality in emerging Asia is heading towards Latin American levels

**G**ROWTH with equity" was the mantra of the Asian tigers during the three decades to the 1990s. Unlike Latin America, most of them combined speedy economic growth with relatively low and sometimes even falling income inequality, thereby spreading the economic gains widely. More recently, Asian economies have continued to enjoy the world's fastest growth, but the rich are now growing richer much faster than the poor.

According to a report by the Asian Development Bank (ADB), income inequality has increased over the past decade or so in 15 of the 21 countries it has studied. The three main exceptions are Thailand, Malaysia and Indonesia, the countries worst hit by the 1997 financial crisis. The biggest increases in inequality were in China, Nepal and Cambodia (see chart 1).

Income inequality is usually measured by a country's Gini coefficient, in which 0 is perfect equality (everyone has the same income) and 1 is perfect inequality (ie, one household takes everything). China's Gini coefficient rose from 0.41 in 1993 to 0.47 in 2004, the highest in Asia after Nepal (see chart 2).

On this measure, China has more income inequality than America (whose Gini coefficient is 0.46). Governments in Beijing and elsewhere in Asia like to comfort themselves with the thought that they still have less inequality than Latin America does. Argentina, Brazil, Chile and Mexico all have Gini coefficients of consider-

ably over 0.5; Brazil's is 0.57.

However, this may partly reflect differences in measurement. Gini coefficients in Latin America are based on income; those in Asia are mainly based on expenditure, because reliable income data are often not available. Using income data produces higher estimates of inequality in developing countries because it tends to understate the well-being of self-employed and agricultural workers, who are generally the poorest. In Asian countries where inequality data are available on both measures, the income coefficient is typically a fifth higher than that based on expenditure. Thailand's, for example, jumps from 0.43 to 0.52.

This suggests inequality in many Asian countries could now be nudging Latin American levels if measured on a comparable basis. The figures in the chart are for 2004, but inequality has been rising in China, while in Brazil it has been falling over the past decade. Assuming this trend has continued, China's inequality may be as great as Brazil's already.

Moreover, in some Asian countries, expenditure figures may understate the true extent of inequality. India's Gini coefficient is in the lower half of the chart, yet health and education measures suggest the country suffers from wide disparities. In the richest 20% of households, only 5% of children are severely underweight, compared with 28% in the poorest 20%—a wider gap than in countries which have higher Gini coefficients. In India's richest state 99.8% of the population has access to clean water, but only 2% does in the poorest. The comparable figures for China, where income inequality is officially much greater, are 100% and 75%.

The main cause of increased inequality, especially in China, is the differing fortunes of rural and urban households. Productivity—and hence income—is growing much more slowly in agriculture, on which most of the poor depend, than in manufacturing or services.

A second factor is the widening gap between those with and without skills. The shift from socialism to a market economy in China and India has increased the financial benefits of an education. Across Asia, the opening up of economies also means that some high-skilled workers are now paid more in line with international rates.

Does rising inequality matter so long as poverty is falling? It is clear that Asia's poor

have not been bypassed by growth—popular claims to the contrary notwithstanding. Even where inequality has increased sharply, the poorest 20% of households are still better off in real terms than they were ten years ago everywhere except in Pakistan. The number of people living on less than \$1 a day has fallen everywhere except in Pakistan and Bangladesh. Indeed, poverty has fallen by much more in some countries with high and rising inequality than in more egalitarian ones. The share of India's population living on less than \$1 a day fell from 42% in 1993 to 35% in 2004. China saw a sharper fall, from 28% to 11%, largely thanks to faster growth.

But even if poverty has continued to fall despite rising inequality, it may not have dropped as fast as it might have if economic gains had been more equally distributed. The other main reason to worry about widening inequality, says the ADB, is that it can threaten growth if it results in social unrest. High and rising inequality played a big role in Nepal's recent troubles. Rumbles of discontent across the region suggest governments cannot afford to ignore such risks.

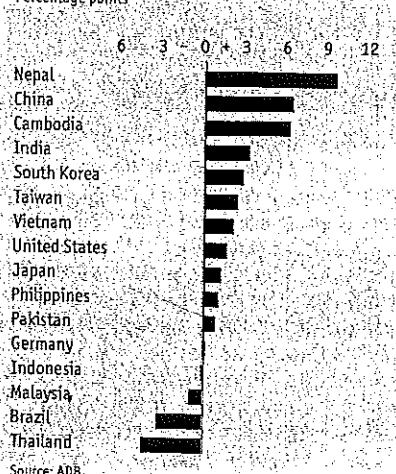
### How to help—maybe

Populist measures to soak the rich are not the answer: they would stunt growth. The ADB instead recommends governments focus on policies that lift the incomes of the poor, such as improving rural access to health, education and social protection. More investment in rural infrastructure could boost productivity in farming and increase job opportunities for the poor.

But that is easier said than done. Rajiv Gandhi famously remarked that only 15% of government money intended for India's poor ever reached them. Most of it leaks out in bureaucratic incompetence or corruption—fattening the wallets of those who are already well-to-do. ■

### The widening gap

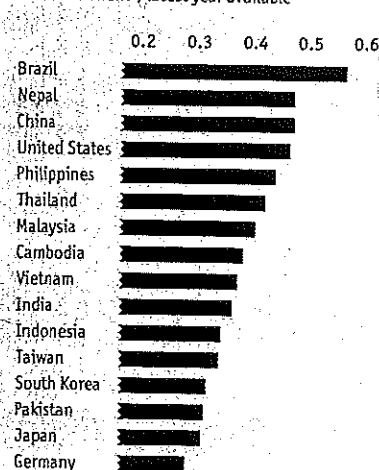
Change in Gini coefficient, 1990s-2000s  
Percentage points



Source: ADB

### Unequal stakes

Gini coefficient\*, latest year available



Source: ADB

\*0=perfect equality; 1=perfect inequality